

AMENDED IN SENATE JUNE 26, 2012

AMENDED IN ASSEMBLY APRIL 17, 2012

CALIFORNIA LEGISLATURE—2011–12 REGULAR SESSION

## ASSEMBLY BILL

**No. 1699**

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**Introduced by Assembly Member Torres**

February 15, 2012

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An act to *amend Section 50515.2 of, and to add Chapter 3.9* (commencing with Section 50560) to Part 2 of Division 31 of, the Health and Safety Code, relating to affordable housing.

### LEGISLATIVE COUNSEL'S DIGEST

AB 1699, as amended, Torres. Affordable housing.

Existing law authorizes the Department of Housing and Community Development to provide technical assistance to groups and persons with various housing needs and to administer various housing loan programs. Existing law authorizes the department to extend the term of existing multifamily housing loans made under specified programs upon the request of any borrower, subject to certain conditions, as provided.

This bill would authorize the department to extend the term of an existing department loan, subordinate a department loan to new debt, and authorize an investment of tax credit equity under certain rental housing finance programs, subject to specified conditions. *The bill would make changes with regard to existing rent subsidies and rents under existing department housing programs, as specified.* The bill would authorize the department to adopt guidelines that are not subject to the Administrative Procedures Act, as specified.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     SECTION 1. The Legislature finds and declares all of the  
2 following:

3     (a) Over the past 30 years, the Legislature has authorized and  
4 funded a variety of affordable rental housing development finance  
5 programs administered by the Department of Housing and  
6 Community Development, each with its own unique requirements  
7 for ongoing operation.

8     (b) The vast majority of developments funded under these  
9 programs have operated successfully, and remain an important  
10 source of high-quality, highly affordable units for extremely low  
11 income and very low income households. However, some  
12 developments need significant renovation, beyond that which can  
13 be covered by existing project reserves, or are running at a deficit  
14 that is not sustainable on a long-term basis. As developments age,  
15 more and more are likely to fall into this category.

16     (c) There are decreasing sources of public funding available to  
17 cover needed renovations, and to eliminate operating deficits. For  
18 at least the next few years, private debt and equity generated  
19 through the sale of low-income housing tax credits will likely be  
20 the main source of capital for this purpose.

21     (d) Accessing private debt and tax credit equity sometimes  
22 requires restructuring the regulatory restrictions applicable to a  
23 development, including increasing rents. Recognizing this, the  
24 Legislature previously enacted legislation, Senate Bill 707 in 2007,  
25 authorizing the restructuring of regulatory restrictions for some of  
26 the oldest developments. This legislation applied only to selected  
27 department programs that were active in the 1980s.

28     (e) Renovation needs have come to light in a number of projects  
29 financed under another set of department programs, dating from  
30 the early to mid-1990s. To address these needs, authority is needed  
31 for a similar restructuring of regulatory restrictions for these  
32 projects.

33     (f) It is the intent of the Legislature that the regulatory  
34 restructurings needed to facilitate renovations and eliminate  
35 operating deficits minimize the impact on existing tenants,  
36 particularly those with the lowest incomes, and preserve as much  
37 affordability as possible.

1 (g) Rather than have multiple different restructuring programs,  
2 it is more efficient to have one program, applicable to all of the  
3 department's older programs, with variations only where essential  
4 to address unique situations associated with the existing historical  
5 programs.

6 *SEC. 2. Section 50515.2 of the Health and Safety Code is*  
7 *amended to read:*

8 50515.2. (a) Notwithstanding any other law, the department  
9 may extend the term of an existing multifamily housing loan made  
10 by the department under the original Rental Housing Construction  
11 Program established by Chapter 9 (commencing with Section  
12 50735); the Special User Housing Rehabilitation Program  
13 established by Section 50670; or the Deferred Payment  
14 Rehabilitation Loan Program established by Chapter 6.5  
15 (commencing with Section 50660) upon the request of any  
16 borrower subject to the following conditions:

17 (1) The borrower shall provide to the department a complete  
18 report showing all existing tenants, their incomes, as reported in  
19 the most recent annual income certification, and the rents currently  
20 charged to each tenant.

21 (2) The borrower shall agree to an extension of the term of the  
22 loan by an additional 55 years from the date of departmental  
23 approval. If the department determines that the remaining useful  
24 life of a project is less than 55 years, the loan may be extended for  
25 the remaining useful life of the project, but not less than 30 years.  
26 The department may convert the existing outstanding principal  
27 and any accrued interest into the new loan amount. The interest  
28 rate on the extended term shall be 3 percent simple interest. All  
29 future payments of principal and interest may be deferred except  
30 for a percentage of interest equal to the percentage charged in the  
31 Multifamily Housing Program (Chapter 6.7 (commencing with  
32 Section 50675)) for the department's ongoing monitoring and  
33 management responsibilities.

34 (3) The borrower shall agree to amend or replace the existing  
35 regulatory agreement to include terms generally equivalent to those  
36 used in the Multifamily Housing Program. In addition, the borrower  
37 shall agree to replace, amend, or revise any other loan documents  
38 as necessary to accomplish the purposes of this section.

39 (4) (A) The borrower shall agree to a rent schedule that ensures  
40 that all assisted units are affordable to households earning no more

1 than 60 percent of the area median income and that at least 35  
2 percent of all assisted units shall be reserved for, affordable to,  
3 and occupied by, households earning less than or equal to the  
4 midlevel target used by the Multifamily Housing Program, unless  
5 the department finds both of the following:

6 (i) That the project income is insufficient to maintain fiscal  
7 integrity, as that term is used in the Multifamily Housing Program,  
8 and is insufficient to maintain the rents required under this  
9 subparagraph pursuant to the terms of the Uniform Multifamily  
10 Regulations, or any successor regulations, except that commercial  
11 vacancy loss shall be projected based on the operating history of  
12 the project, commercial vacancy rates in the neighborhood, and  
13 similar factors typically used by commercial lenders.

14 (ii) That the borrower has exhausted all available potential  
15 sources of rental subsidies, including, but not limited to, federal,  
16 state, and local funds.

17 (B) If the department finds that a reduction in the percentage  
18 of assisted units to less than 35 percent of assisted units is justified,  
19 it shall ensure that the largest possible percentage is reserved for  
20 the targeted households.

21 (C) For the purposes of this paragraph, “midlevel target used  
22 by the Multifamily Housing Program” shall mean the following:

23 (i) For counties with an area median income of 110 percent or  
24 less of the state median income, it shall mean households earning  
25 30 percent of state median income, expressed as a percentage of  
26 area median income.

27 (ii) For counties with an area median income that exceeds 110  
28 percent of the state median income, it shall mean households  
29 earning less than 35 percent of state median income, expressed as  
30 a percentage of area median income.

31 (5) No tenant residing in a project at the time of an extension  
32 authorized by this section may be displaced as a result of the  
33 regulatory revisions authorized by this section, and, for the initial  
34 operating year after approval of the extension, that tenant may not  
35 have his or her rent increased above the amounts specified in his  
36 or her preexisting regulatory agreements, except that no tenant  
37 may pay less than 30 percent of his or her income, calculated  
38 pursuant to the Multifamily Housing Program criteria. If a rent  
39 increase authorized under this section would exceed a 10 percent  
40 increase in payment for a lower income tenant, the project owner

1 shall phase in the increase so that it does not exceed 10 percent  
2 per year. After the initial operating year after the extension  
3 authorized under this section, the rents for all regulated units that  
4 are subject to the new agreement may be adjusted in the percentage  
5 calculated pursuant to the Multifamily Housing Program criteria,  
6 plus the amount necessary to bring an individual tenant up to the  
7 30-percent-of-income standard, provided that the total annual  
8 increase does not exceed 10 percent. Rent adjustments for all  
9 tenants occupying assisted units at the time of the extension shall  
10 be based on the tenant's initial rent established under this  
11 paragraph. Upon vacancy of an assisted unit occupied at the time  
12 of the extension, the new base rent for that unit shall be established  
13 consistent with the standards used in the Multifamily Housing  
14 Program for the regulated income band, subject to the reservation  
15 of units required under paragraph (4).

16 (b) The department may approve an extension of a loan made  
17 by the department if it determines that the project has, or will have  
18 after rehabilitation or repairs, a potential remaining useful life of  
19 at least 30 years and that the project is deemed financially feasible  
20 pursuant to the terms of its Uniform Multifamily Regulations or  
21 successor regulations.

22 (c) The department may subordinate its loan or loans to refinance  
23 existing senior debt and to additional permanent financing if that  
24 additional senior debt is used only for rehabilitation, repairs, or  
25 improvements, or both, including related soft costs, that are modest  
26 in size, scope, and cost, as determined by the department and  
27 necessary to maintain and extend the useful life of the project.

28 (d) (1) For the purposes of this subdivision, the "agency  
29 projects" are the 26 projects assisted through the original Rental  
30 Housing Construction Program with funds administered by the  
31 California Housing Finance Agency.

32 (2) Upon the request of a borrower the agency may extend the  
33 term of an existing loan for an agency project by a period that is  
34 equal to the remaining useful life of the project, as determined by  
35 the agency, but not more than 55 years and not less than 30 years  
36 from the date of agency approval, under terms that are substantially  
37 consistent with the purposes of this section, if all of the following  
38 conditions are met:

39 (A) The borrower shall provide to the agency the report  
40 described in paragraph (1) of subdivision (a).

1 (B) The extension shall be subject to the conditions set forth in  
2 paragraph (2) of subdivision (a).

3 (C) The rent levels and tenant protections described in  
4 paragraphs (4) and (5) of subdivision (a) shall be satisfied, except  
5 that the agency, not the department, shall make the determination  
6 required under clause (i) of subparagraph (A) of paragraph (4) of  
7 subdivision (a) that the project income is insufficient to meet the  
8 agency's affordable multifamily lending program requirements.

9 (3) Any determination or approval under this section regarding  
10 the agency projects shall be by the agency rather than the  
11 department.

12 (4) The borrower and the agency shall amend, replace, or revise  
13 any other loan documents or agreements governing the loans for  
14 the agency projects as necessary to accomplish the purposes of  
15 this section.

16 (5) All funds received by the agency for the agency projects,  
17 whether by loan repayment, foreclosure, accrued interest, or  
18 otherwise, shall be used to provide assistance to existing or future  
19 projects financed by or through the agency pursuant to terms  
20 consistent with the agency's affordable multifamily lending  
21 programs.

22 (e) It is the intent of the Legislature in enacting this section that  
23 the department should manage its reserves for the original Rental  
24 Housing Construction Program in a manner that will allow for the  
25 continuation of current benefits to current low-income tenants for  
26 the longest period of time possible. Accordingly, rent subsidies  
27 shall be continued only for units occupied by lower income tenants  
28 who were in residence at the time of the extension authorized under  
29 this section.

30 (f) It is the intent of the Legislature in enacting this section to  
31 provide to the department the flexibility necessary to preserve the  
32 affordable rental units for which the state has already made a  
33 significant public investment. Accordingly, the department may  
34 implement this section through guidelines that shall not be subject  
35 to Chapter 2.5 (commencing with Section 11340) of Part 1 of Title  
36 2 of the Government Code.

37 (g) This section shall become operative on July 1, 2008.

38 (h) *This section shall not apply to loan extensions and senior*  
39 *debt subordinations executed by the department and recorded after*  
40 *December 31, 2012.*

1     ~~SEC. 2.~~

2     SEC. 3. Chapter 3.9 (commencing with Section 50560) is added  
3 to Part 2 of Division 31 of the Health and Safety Code, to read:

4  
5             CHAPTER 3.9. PORTFOLIO RESTRUCTURING  
6

7     50560. (a) ~~The Subject to the requirements of this chapter, the~~  
8 department may approve an extension of a department loan, the  
9 subordination of a department loan to new debt, or an investment  
10 of tax credit equity under one or more of the following rental  
11 housing finance programs: the original Rental Housing  
12 Construction Program established by Chapter 9 (commencing with  
13 Section 50735), the Special User Housing Rehabilitation Program  
14 established by Section 50670, the Deferred Payment Rehabilitation  
15 Loan Program established by Chapter 6.5 (commencing with  
16 Section 50660), ~~the rental component of the California Natural~~  
17 ~~Disaster Assistance Program established by Chapter 6.5~~  
18 ~~(commencing with Section 50671), the State Earthquake~~  
19 ~~Rehabilitation Assistance Program established by Chapter 6.5~~  
20 ~~(commencing with Section 50671), the rental component of the~~  
21 California Housing Rehabilitation Program established by Section  
22 50668.5, the component of the Rental Housing Construction  
23 Program funded with bond proceeds governed by Section 50771.1,  
24 ~~and the Family Housing Demonstration Program established by~~  
25 Chapter 15 (commencing with Section 50880), ~~and the Families~~  
26 ~~Moving to Work Program established by Chapter 15 (commencing~~  
27 ~~with Section 50880).~~

28     (b) Once the department has approved a loan extension,  
29 subordination, or tax credit investment pursuant to ~~subdivision (a)~~  
30 ~~this chapter~~, the statutes enumerated in subdivision (a), and the  
31 regulations promulgated pursuant to these statutes, shall no longer  
32 apply to developments restructured pursuant to this chapter.  
33 ~~Developments under subdivision (a) These developments shall~~  
34 instead be governed by this chapter and guidelines adopted  
35 pursuant to subdivision ~~(e)~~ (h).

36     (c) All projects restructured pursuant to this chapter shall  
37 comply with the affirmative marketing and language accessibility  
38 requirements set forth in Section 50736 of this code and Section  
39 65863 of the Government Code.

1     (d) The department may approve an extension of a loan if it  
2     determines that the project has, or will have after rehabilitation  
3     or repairs, a potential remaining useful life equal to or greater  
4     than the term of the restructured loan.

5     (e) The department may subordinate its loan to refinance  
6     existing senior debt only as necessary for project feasibility.

7     (f) If the extension of a department loan, the subordination of  
8     a department loan to new debt, or an investment of tax credit equity  
9     will result in a rent increase for tenants of a development, the  
10    department may only subordinate a loan to senior debt if needed  
11    to increase the feasibility of a project and if needed to fund  
12    reasonable rehabilitation or improvements including soft costs.  
13    The application to refinance shall include a third-party analysis  
14    which supports the need for refinancing.

15    (g) The department may approve additional senior debt only as  
16    necessary to finance rehabilitation or repairs, including soft costs,  
17    that are modest in size, scope, and cost, as determined by the  
18    department.

19    ~~(e)~~

20    (h) It is the intent of the Legislature in enacting this chapter to  
21    provide to the department the flexibility necessary to maintain the  
22    quality of the affordable rental housing units for which the state  
23    has already made a significant public investment. The department  
24    may implement this chapter through guidelines that shall not be  
25    subject to Chapter 2.5 (commencing with Section 11340) of Part  
26    1 of Title 2 of the Government Code. These guidelines shall be  
27    developed through a process that allows for public input prior to  
28    ~~their adoption.~~ the following process:

29    (1) The department shall provide a notice of proposed action  
30    as described in Section 11346.5 of the Government Code to the  
31    public at least 21 days before the close of the public comment  
32    period.

33    (2) The department shall schedule at least one public hearing  
34    as described in Section 11346.8 of the Government Code before  
35    the close of the public comment period.

36    (3) The department shall maintain a rulemaking file as described  
37    in Section 11347.3 of the Government Code.

38    (4) The final version of the guidelines shall be accompanied by  
39    a final statement of reason as described in subdivision (a) of  
40    Section 11346.9 of the Government Code.



(5) *The rules and guidelines shall be effective immediately upon adoption by the department.*

50561. (a) ~~The department may extend the term~~ *approve an extension of an existing rental housing development loan and the time for repayment for additional terms, the subordination of a department loan to new debt, or an investment of tax credit equity* as long as the rental housing development is being operated in a manner consistent with the regulatory agreement and the development requires an extension in order to continue to operate in a manner consistent with this chapter. Each extension shall be for a period of not less than 10 years ~~and the total term of the revised loan~~ *each extension shall not exceed 55 years, or not more than 58 years if needed to match the term of tax credit restrictions.* The interest rate shall be 3 percent simple interest. *All future payments of principal and interest may be deferred except for a percentage of interest equal to the percentage charged annually in the Multifamily Housing Program (Chapter 6.7 (commencing with Section 50671)). The department may allow a capitalized loan payment or capitalization of a fund to facilitate annual loan payments.* The department may defer payments of principal and interest, *including the percentage of interest equal to the percentage charged annually in the Multifamily Housing Program (Chapter 6.7 (commencing with Section 50671)), if the restructured project does not include additional debt service. If the department makes this determination to defer annual loan payments, the required interest payment shall be a priority use of cashflow after payment of operating expenses and required reserves but prior to any payment to the borrower or associated entities.* As necessary to generate sufficient revenue to cover the cost of processing loan transactions and long-term monitoring of program requirements, the department may also assess loan processing and monitoring fees, ~~require periodic or capitalized loan payments, and require that cashflow be applied on a priority basis toward department loan payments.~~ In determining the fees and payments to be charged, the department shall seek to minimize the impact on tenants with the lowest incomes and on the capacity of the developments to support private debt or secure tax credit investments.

(b) ~~To the minimum extent needed to support new debt or to secure tax credit equity to pay for necessary rehabilitation costs, as determined by the department based on third-party assessments,~~

1 ~~rents for assisted units may be increased~~ *rehabilitation, rents for*  
2 *assisted units in these developments may be adjusted. This*  
3 *rehabilitation shall be determined by the department to be*  
4 *demonstrably necessary, based on third-party assessment and on*  
5 *the department's own inspection. Assisted units in developments*  
6 *with a specific, department-approved plan to undertake the needed*  
7 *rehabilitation, at a level that equals or exceeds the minimum*  
8 *per-unit rehabilitation cost standards under the low-income*  
9 *housing tax credit program, may be adjusted as follows:*

10 (1) For developments originally financed under the bond-funded  
11 component of the Rental Housing Construction Program pursuant  
12 to Section 50771.1, rents may be increased up to a maximum of  
13 30 percent of 60 percent of area median income, for units  
14 designated in the development's original regulatory agreement as  
15 lower income units, and up to a maximum of 30 percent of 35  
16 percent of area median income, for units designated in the  
17 development's original regulatory agreement as very low income  
18 units.

19 ~~(2) For developments originally financed under other programs,~~  
20 ~~and located in counties with an area median income of 110 percent~~  
21 ~~or less of state median income, rents for at least 35 percent of~~  
22 ~~assisted units shall be restricted to no more than 30 percent of 30~~  
23 ~~percent of state median income, expressed as a percentage of area~~  
24 ~~median income. For developments originally financed under other~~  
25 ~~programs, and located in other counties, rents for at least 35 percent~~  
26 ~~of assisted units shall be restricted to no more than 30 percent of~~  
27 ~~35 percent of state median income, expressed as a percentage of~~  
28 ~~area median income. Rents for the balance of the assisted units~~  
29 ~~may be increased up to a maximum of 30 percent of 60 percent of~~  
30 ~~area median income.~~

31 (2) *For developments originally financed under other programs,*  
32 *rents for at least 35 percent of the assisted units, or as specified*  
33 *in the original regulatory agreement governing the development,*  
34 *whichever is greater, shall be restricted to the midlevel target used*  
35 *by the Multifamily Housing Program. Rents for the balance of the*  
36 *assisted units may be increased up to a maximum of 30 percent of*  
37 *60 percent of area median income. For purposes of this paragraph,*  
38 *"midlevel target used by the Multifamily Housing Program" shall*  
39 *mean either of the following:*

1 (A) For counties with an area median income of 110 percent  
2 or less of state median income, it shall mean 30 percent of 30  
3 percent of state median income, expressed as a percentage of area  
4 median income.

5 (B) For counties with an area median income that exceeds 110  
6 percent of the state median income, it shall mean, 30 percent of  
7 35 percent of state median income, expressed as a percentage of  
8 area median income.

9 (c) Rent increases for tenants living in assisted units at the time  
10 of restructuring pursuant to this chapter shall be limited as follows:

11 ~~(3)~~

12 (1) For existing tenants with incomes not exceeding 35 percent  
13 of area median income, increases shall be limited to 5 percent per  
14 year, until the rents reach the levels specified in paragraphs (1)  
15 and (2) of set in accordance with subdivision (b) of Section 50561.  
16 For

17 (2) For existing tenants with incomes exceeding 35 percent of  
18 area median income, increases shall be limited to 10 percent per  
19 year, until they reach the levels specified in paragraphs (1) and (2)  
20 of subdivision (b) of Section 50561. When existing tenants move,  
21 the rent for their units may be increased immediately up to the  
22 levels specified in set in accordance with paragraphs (1) and (2)  
23 of subdivision (b) of Section 50561.

24 ~~(4) Once rents reach their new ultimate restricted level, future~~  
25 ~~rent increases shall be based on increases in the area median~~  
26 ~~income.~~

27 (3) If the refinance of a loan results in a rent increase, the  
28 project sponsor shall provide tenants with the following  
29 notifications:

30 (A) Notice six months prior to the scheduled rent increase with  
31 an estimate of the amount of the increase.

32 (B) Notice 90 days prior to the actual increase with the exact  
33 amount of the new rent.

34 ~~(e)~~

35 (d) When existing tenants move, and rents are adjusted as  
36 specified in subdivision (b), the income limit for new tenants shall  
37 correspond with the rent limit the rent for these units may be  
38 increased immediately up to the level specified in paragraphs (1)  
39 and (2) of subdivision (b). The income limit for new tenants shall

1 *correspond with the rent limit set in accordance with paragraphs*  
2 *(1) and (2) of subdivision (b).*

3 ~~(d) When rents are adjusted pursuant to this section, and income~~  
4 ~~limits reset, income~~

5 *(e) Once rents achieve the levels set forth in paragraphs (1)*  
6 *and (2) of subdivision (b), income levels and rent limits shall be*  
7 *calculated consistent with the calculation methodology used under*  
8 *the Low Income Housing Tax Credit program and the Multifamily*  
9 *Housing Program, and rent increases shall be based on increases*  
10 *in the area median income.*

11 *(f) Eligible households displaced as a result of rehabilitation*  
12 *pursuant to this section shall be accorded first priority in occupying*  
13 *comparable units in the development from which they were*  
14 *displaced, subsequent to rehabilitation. Tenants of rental housing*  
15 *developments repaired with assistance provided under this chapter*  
16 *who are temporarily or permanently displaced as a result of*  
17 *rehabilitation or other repair work, shall be entitled to relocation*  
18 *benefits pursuant to, and subject to, the requirements of Section*  
19 *7260 of the Government Code. Sponsors of assisted rental housing*  
20 *developments shall be responsible for providing the benefits and*  
21 *assistance. The costs of the benefits and the assistance provided*  
22 *to tenants shall be eligible for funding by a loan provided pursuant*  
23 *to this section.*

24 *(g) The guidelines adopted by the department pursuant to*  
25 *subdivision (c) of Section 50560 shall be patterned after the*  
26 *regulations governing the Multifamily Housing Program, including*  
27 *the Uniform Multifamily Regulations, except that the department*  
28 *may adopt different standards for the following factors:*

29 *(1) Commercial vacancy loss assumptions must reflect project*  
30 *operating history.*

31 *(2) Debt service coverage ratios.*

32 *(3) Payment terms and principal amount of senior debt,*  
33 *considering financial market conditions, including costs and*  
34 *department risk, as determined by the department.*

35 *(4) Developer fee limitations shall be consistent with California*  
36 *Tax Credit Allocation Committee regulations for inclusion in the*  
37 *basis for projects receiving 9 percent tax credits.*

38 *(5) Replacement reserve deposit amounts must be based on*  
39 *projected costs over 20 years, adjusted for inflation, and as shown*  
40 *in an independent replacement reserve analysis.*

1     (h) *It is the intent of the Legislature in enacting this section that*  
2 *the department should manage its reserves for the original Rental*  
3 *Housing Construction Program in a manner that will allow for*  
4 *the continuation of benefits to current low-income tenants for the*  
5 *longest period of time possible up to the term of the original*  
6 *regulatory agreement or the depletion of the annuity funds,*  
7 *whichever occurs first. Accordingly, rents for those households in*  
8 *units subsidized by the annuity fund established pursuant to Section*  
9 *50748 may be increased to 30 percent of household income. Any*  
10 *household affected by the rent increase permitted by this*  
11 *subdivision, shall be given at least 90 days advanced notice of the*  
12 *increase.*

13     50562. (a) When a department loan is extended or  
14 subordinated, or when a new tax credit investment occurs, the  
15 department shall enter into a new regulatory agreement with the  
16 development's owner, or amend the existing agreement. *The*  
17 *agreement shall be binding upon the development's owner and*  
18 *successors in interest upon sale or transfer of the development*  
19 *property, regardless of any prepayment of the loan. The agreement*  
20 *shall be recorded in the office of the county recorder in the county*  
21 *in which the development is located. The new or amended*  
22 regulatory agreement shall:

23     (1) Set standards for tenant selection to ensure occupancy by  
24 the eligible households.

25     (2) Govern the terms of occupancy agreements.

26     (3) Restrict rents for assisted units, consistent with this chapter.

27     (4) Provide for periodic inspections, ~~occupancy and financial~~  
28 ~~reports, and financial audits for the development by the department.~~

29     (5) *Require occupancy and financial reports, and financial*  
30 *audits for the development.*

31     ~~(5)~~

32     (6) Govern the use of operating income for the development.

33     ~~(6)~~

34     (7) Govern the use of reserves for the development.

35     ~~(7)~~

36     (8) Have a term for not less than the term of the loan, including  
37 any extension.

38     ~~(8)~~

39     (9) Include other provisions necessary to carry out the purposes  
40 of this chapter.

~~(b) The agreement shall be binding upon the development's owner and successors in interest upon sale or transfer of the development property, and regardless of any prepayment of the loan.~~

~~(e) The agreement shall be recorded in the office of the county recorder in the county in which the development is located.~~

*(b) The development's owner shall agree to replace or amend any other loan documents to accomplish the purposes of this chapter.*

*50563. (a) Sections 50560 and 50562 shall apply to the restructuring of loans for group homes except as modified in this section.*

*(b) The department may approve an extension of a department loan at the end of the current loan term to an existing owner of a group home as long as the group home is being operated in a manner consistent with the regulatory agreement and the group home requires an extension in order to operate in a manner consistent with this chapter. The extension may be for a period of no less than 10 years and up to 30 years.*

*(c) The guidelines adopted by the department pursuant to subdivision (c) of Section 50560 may simplify requirements as appropriate to group homes and may include a limitation on occupancy of vacant units or rooms to extremely low-income households, rent limitations appropriate to required income levels, requirements that property be maintained, financial reporting, and other provisions as determined necessary by the department.*

*(d) Loan terms contained in the existing promissory note shall apply during the period of the loan extension. All unpaid principal and interest shall be due at the end of the extension. However, the department may require periodic payments of principal or interest, or both, during the extension period. If the borrower repays the loan prior to the end of the extension, regulatory requirements shall be removed. As necessary to generate sufficient revenue to cover the cost of processing loan transactions and long-term monitoring of program requirements, the department may also assess loan processing and monitoring fees. This subdivision shall not authorize a rent increase that exceeds 30 percent of the household's actual income, based upon the most recent income certification.*

1     (e) Rent increases for tenants living in assisted units at the time  
2 of restructuring pursuant to this chapter shall be limited as follows:

3     (1) For existing tenants with incomes not exceeding 30 percent  
4 of area median income, rent increases shall be limited to 5 percent  
5 per year until rents reach the levels for targeted income levels  
6 specified in the regulatory agreement.

7     (2) For existing tenants with incomes exceeding 30 percent of  
8 area median income, rent increases shall be limited to 10 percent  
9 per year until rents reach the levels for targeted income levels  
10 specified in the regulatory agreement.

11     (f) It is the intent of the Legislature in enacting this chapter that  
12 the department should manage its reserves for the original Rental  
13 Housing Construction Program in a manner that will allow for  
14 the continuation of benefits to current low-income tenants for the  
15 longest period of time possible up to the term of the original  
16 regulatory agreement or the depletion of the annuity funds.  
17 Accordingly, rent subsidies shall be continued only for units  
18 occupied by lower income tenants who were in residence at the  
19 time of the extension authorized under this section and rents for  
20 those households shall be increased to 30 percent of household  
21 income.

22     50564. (a) Notwithstanding any other law, the department  
23 may approve the extension of a loan to an owner who occupies  
24 his or her housing unit funded by the department under any of the  
25 following loan programs: the owner component of the California  
26 Natural Disaster Assistance Act Program established by Chapter  
27 6.5 (commencing with Section 50660), the California  
28 Homeownership Assistance Program established by Chapter 10  
29 (commencing with Section 50775), the owner component of the  
30 California Housing Rehabilitation Program established by Chapter  
31 6.5 (commencing with 50668), the owner component of the  
32 Deferred Payment Rehabilitation Loan Program established by  
33 Chapter 6.5 (commencing with Section 50660), the owner  
34 component of the State Earthquake Rehabilitation Assistance  
35 Program established by Chapter 6.5 (commencing with Section  
36 50671), and the owner component of the Mobilehome Park  
37 Resident Ownership Program established by Chapter 11  
38 (commencing with Section 50780).

39     (b) A loan extension for a period of 10 years may be granted  
40 when the loan is due if the owner demonstrates that his or her

1 household income is no more 50 percent of area median income,  
2 adjusted for family size, or if the department determines that it is  
3 not in the department's interest to call the loan due.

4 (c) Loan terms contained in the existing promissory note shall  
5 apply during the period of the loan extension. All unpaid principal  
6 and interest shall be due at the end of the extension. However, the  
7 department may require periodic payments of principal or interest,  
8 or both, during the extension period. If the borrower repays the  
9 loan prior to the end of the extension, program restrictions shall  
10 be removed. As necessary to generate sufficient revenue to cover  
11 the cost of processing loan transactions and long-term monitoring  
12 of program requirements, the department may also assess loan  
13 processing and monitoring fees.

14 (d) The department may implement this section through  
15 guidelines that shall not be subject to Chapter 2.5 (commencing  
16 with Section 11340) of Part 1 of Title 2 of the Government Code.